Statutory Reference:

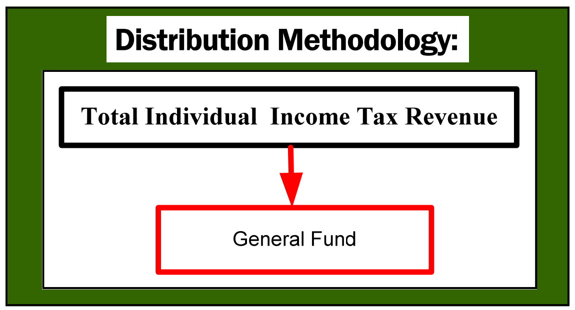
- Tax Rate (MCA) – 15-30-103
- Tax Distribution (MCA) – 15-1-501(1)
- Date Due – 15th day of the fourth month after the close of the filer's fiscal year (15-30-144). Withholding taxes due monthly, quarterly, or on an accelerated schedule depending on income (15-30-204). Estimated taxes due on the 15th day of the 4th, 6th, and 9th month and the month following the close of the tax year.

Applicable Tax Rate(s):

Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income. Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year. SB 407, enacted by the 2003 legislature, created a new capital gains income tax credit. As a result the tax rate on capital gains income is less than the tax rate on ordinary income by 1 percent in tax years 2005 and 2006, and by 2 percent in tax year 2007 and beyond.

Distribution:

All proceeds are deposited into the general fund.



Collection Frequency:

Withholding and estimated taxes are collected monthly, bi-weekly, and weekly.

% of Total General Fund Revenue:

FY 2004 – 43.82%
FY 2005 – 46.13%
FY 2006 – 45.01%

Revenue Estimate Methodology:

Data

There are three kinds of data required to make forecasts of individual income tax revenue. First is historical individual income tax return data, second is state and national historic data on income, inflation, employment, and other economic variables, and third is forecasts of economic activity that determine income and deductions.

Actual individual income tax return data are supplied annually by the Department of Revenue (DOR). This data are usually available in November and are for the prior tax year. The data include line-by-line tax return information for each state income taxpayer (except those that have been removed because of the existence of certain federal information).

The second set of data required is historical information on Montana incomes by type of income, inflation rates, employment, and other economic variables. These data are available from individual income tax returns, Bureau of Economic Analysis, Bureau of Labor Statistics, and Global Insight, a forecasting firm that provides forecasts of national and Montana economic activity.

The third set of data includes forecasts of economic conditions that determine income and deductions. These data are used to produce future growth rates for each income and deduction item, as explained in the methodology section below. Global Insight forecasts a myriad of state and national economic variables that are used to assess overall state and national economic activity.

Analysis

An individual income tax simulation model is used to forecast future Montana calendar year individual income tax liability for all residents. These forecasts are converted to fiscal year liability and are adjusted for audits and possibly one-time events. The individual income tax simulation model reflects the effects of SB 407, the legislation that changed the individual income tax system in Montana and was passed by the 2003 legislature. This legislation collapsed the tax brackets (with a top tax rate of 11 percent in the old system) into a system with 7 tax brackets (with a top rate of 6.9 percent). The model also limits deductibility of federal taxes paid to $5,000 for single taxpayers and $10,000 for married taxpayers.

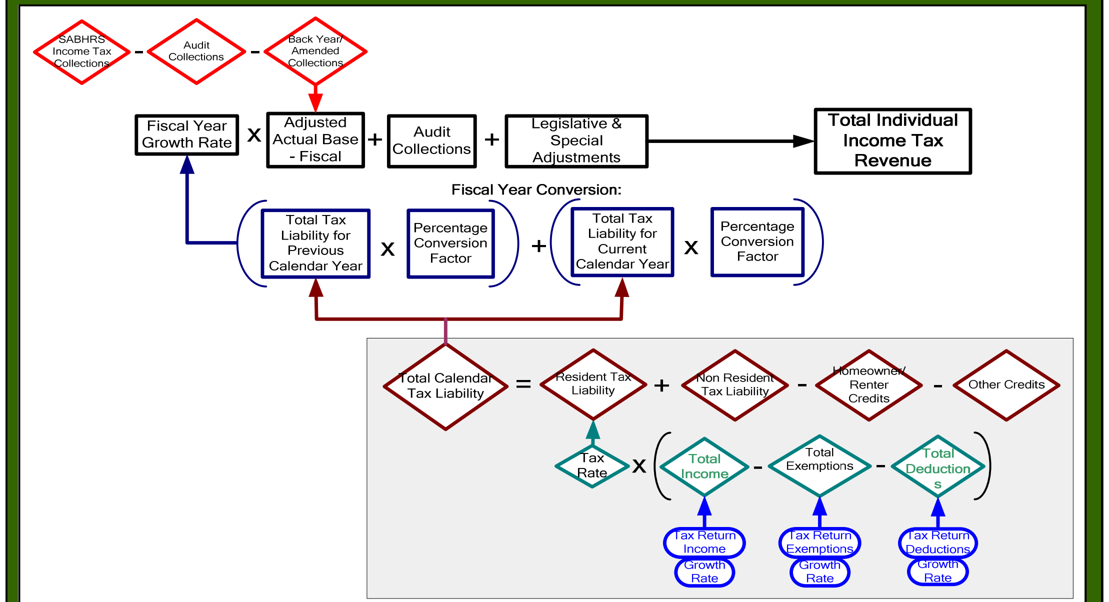
The calendar year state tax liability forecasts are derived by applying growth rates to each resident taxpayer's income and deduction items. Since the latest year for which tax return data are available is tax year 2005, growth rates must be formulated for tax years 2006 through 2009. These growth rates are applied to each taxpayer's tax return data for each year. A sub-model within the simulation model also forecasts the federal individual income tax liability for each resident taxpayer. The result is a forecast of calendar year state individual income tax liability for each resident, the sum of which results in a statewide forecast of state individual income tax liability for each year.

The statewide forecast of resident individual income tax liability is multiplied by an all-filers percentage. This step is required so the estimates include the tax liability for non-residents. "All-filers" include residents, nonresidents, and part-time residents. In tax year 2005, nonresidents and part-time residents were 8.6 percent of resident filers. The next step is to adjust the all-filers calendar year tax liability by the expected future growth in the number of taxpayers. This results in a forecast of total calendar year individual income tax liability before credits. From this amount, an estimate of allowable credits are deducted. The result is a calendar year individual income tax liability for each future year.

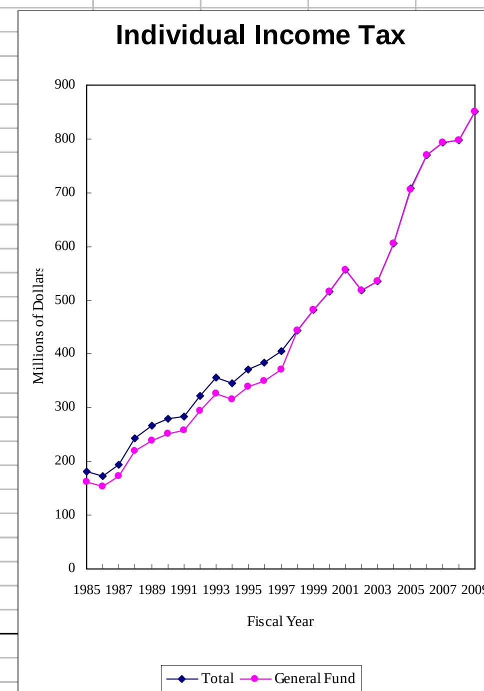
The calendar year liabilities are then converted to fiscal year liabilities by summing an allocation of the prior calendar year's liabilities with an allocation of the current calendar year tax liability. A prior analysis indicated that the percentage to apply to the prior year is 47.9 percent and to the current year is 52.1 percent.

Once fiscal year liabilities are determined, a calculation of the growth rates between fiscal years is developed. These growth rates are then applied to the latest fiscal year (FY 2006) collections of individual income tax by the state. Before the growth rates are applied, however, the latest collection of individual income tax revenue is adjusted by subtracting out audit and other unusual collections. For instance, in FY 2006, total individual income tax collections were $768.9 million, of which $22.7 million was audit collections. Total collections before audits were $746.2 million. This amount was adjusted further by an estimate of excess payments made by taxpayers in FY 2006 due to the effects of SB 407. It is believed that in FY 2006, taxpayers did not adjust their estimated payments for tax years 2005 and 2006, and overpaid $24.0 million in taxes. These overpayments will be returned as refunds in FY 2007. Current refund activity in October 2006 supports this supposition. Thus, the growth rates for the estimates in fiscal years 2007 through 2009 are applied to an adjusted base number of $722.2 million. Once the amount of anticipated revenue before audits has been forecast, an estimate of future audit receipts as provided by DOR is added. Finally the estimates of individual income tax revenue are adjusted by the effects of legislation passed by the 59th Legislature.

Forecast Methodology:



	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1985	181.057157	161.140870	Not App.
A	1986	172.216130	153.272356	-4.88%
A	1987	194.676947	173.262483	13.04%
A	1988	243.768721	219.241292	26.54%
A	1989	265.539814	238.963596	9.00%
A	1990	279.642960	252.230465	5.55%
A	1991	282.960086	258.216424	2.37%
A	1992	321.538093	293.564151	13.69%
A	1993	356.986934	326.187735	11.11%
A	1994	345.643403	315.677433	-3.22%
A	1995	371.902909	339.939156	7.69%
A	1996	383.091612	350.161013	3.01%
A	1997	406.275740	371.275410	6.03%
A	1998	444.160729	444.160729	19.63%
A	1999	483.031571	483.031571	8.75%
A	2000	516.261912	516.261912	6.88%
A	2001	556.014554	556.014554	7.70%
A	2002	517.567691	517.567691	-6.91%
A	2003	535.830664	535.830664	3.53%
A	2004	605.582309	605.348420	12.97%
A	2005	707.343333	706.234579	16.67%
A	2006	768.922343	768.922343	8.88%
F	2007	793.847000	793.847000	3.24%
F	2008	797.035000	797.035000	0.40%
F	2009	851.111000	851.111000	6.78%



The Legislative Fiscal Division
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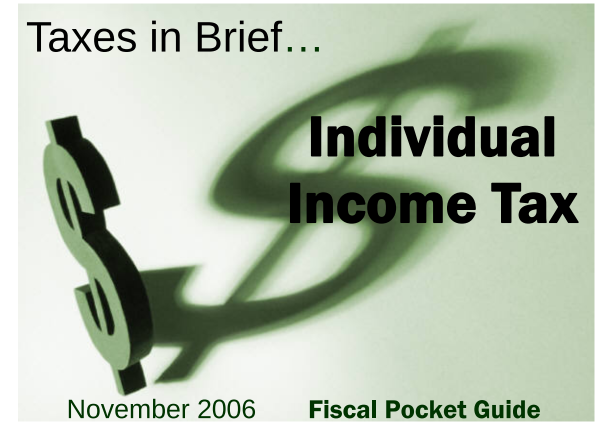

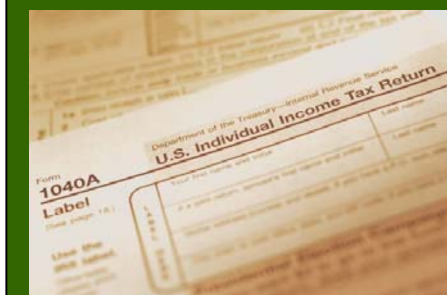

Revenue Description:
The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits.

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